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C E N T R A L I N T E L L I G E N C E A G E N C Y

OFFICE OF NATIONAL ESTIMATES

6 March 1956

STAFF MEMORANDUM No. 19-56

SUBJECT: Princeton Consultants' Meetings of 8-9 February 1956

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* 8 February only
**9 February only

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I. WEST GERMANY

1. The discussion was based on a staff memorandum dated 3 February. STRAYER opened with the observation that the memorandum was too optimistic regarding Adenauer's control of West German politics. He felt that the Chancellor is already losing his grip, and that Bonn will become more independent in foreign affairs over the next several years. LANGER said that the important question to be considered is what Moscow will do in East Germany and what effect Soviet policy regarding Pankow will have on the West Germans. He questioned the memorandum's emphasis on the current Western orientation of the Federal Republic; he felt that Bonn is pursuing its national interests at the present time, and can be expected to follow a more nationalistic course in the future. He suggested that considerable attention should be given in the coming NIE on West Germany to Franco-German relations, to the Saar, and to the probable domestic and foreign economic policies of Bonn.

2. Speaking on the economic question, KNORR asserted that the forecast in the memorandum was too optimistic. He held that economic progress is doubtful, because of labor and capital shortages, an increase in wage demands by unions, and the credit squeeze. He also felt that rearmament might have a serious effect on Western Germany's exporting industries. LINCOLN stated that German firms would trade anywhere they can gain profits, and would attempt to increase trade with the Soviet Bloc. He felt that rearmament would not seriously impair economic growth because Bonn will purchase or receive its military equipment from the US. MILLIKAN said that West Germany will not be able to maintain its favorable balance of trade, and that inflationary pressures will increase. He suggested that East Germany will attempt to entice Bonn into negotiations by offers of trade. LANGER didn't believe that Pankow had anything in the way of trade to offer Bonn and felt that West Germany would increase its Middle Eastern trade, and might help in the development of southern Italy.

3. Turning to Bonn's foreign policy, KENNAN said that West German enthusiasm for European integration has waned considerably in view of the weakness of the movement to "create Europe". He stated that many younger West Germans are disillusioned, don't believe that the US is sincere about European integration, and feel that France

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is against it. KNORR felt that European integration had received a boost following the Geneva Foreign Ministers' Conference, citing EURATOM and the common market proposals. KENNAN replied that there may be some feeling for modest efforts at European economic cooperation, but not for full-scale political integration. LANGER didn't believe the West Germans had any real hope that the Geneva Conferences would speed unification. STRAYER said that the West Germans certainly didn't expect the tough line Molotov took at Geneva. ARMSTRONG said that Adenauer is already being discounted as the only political factor, and cited the Chancellor's backing down in his dispute with the Free Democrats as an indication that Adenauer is losing his power. He said that the Chancellor's prolonged illness had a profound effect upon West German opinion in that Germans now realize fully for the first time that Adenauer will not head the Government for very long.

4. KENNAN said that while the men around Adenauer are pro-Western, there is tremendous political pressure concerning unification. He said it is not a question of whether to negotiate with the Bloc, but rather of what types of negotiation to conduct. He then suggested that considerable attention should be given in the upcoming NIE to Berlin. If German unification is not realized in the next five years, he felt that Berlin could not be held, and that the East German regime would acquire tremendous prestige by making Berlin its capitol. There was general agreement that West German enthusiasm for unification was especially strong in Berlin, and would grow in West Germany, although LANGER and MOSELY felt that the fact that Soviet terms were unlikely to be acceptable in the foreseeable future would restrain West Germany in its efforts at unification. ARMSTRONG said that West Germany would almost certainly negotiate with the Soviets on unification after Adenauer leaves the scene. To LANGER's rejoinder that the West Germans have learned that it is impossible to negotiate fruitfully with Moscow, ARMSTRONG and KENNAN replied that the West Germans believe Russia hasn't really been asked for its terms by Bonn, acting apart from its Western partners. MOSELY and LANGER argued that the inflexibility of the Soviets is clear regarding unification, and foresaw no change in this position. KENNAN felt that there will be continuous discussions between Bonn and Pankow and Bonn and Moscow on many technical subjects, and that terms for unity will be considered in these low level negotiations. There was general agreement that we could expect increasing discussions, informal and on a variety of topics, between East and West Germany. MILLIKAN cautioned that the US should be alert to avoid Soviet efforts to depict us as the inflexible party.

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5. ARMSTRONG felt that the West Germans believe, as a result of their self-confidence, resentment, and perhaps stupidity, that they can do better than the Allies in negotiating for unification. LANGER questioned if it was true that West German belief in its Western association as a means to unification has diminished, and doubted that Bonn's NATO membership was really a stumbling block to the Soviets in granting unification. KENNAN replied that the tough position of the USSR did not appear until after Bonn was admitted to NATO. YOUNG felt that the Soviets would be tough in the short run, but would modify their terms later on. ARMSTRONG believed that Moscow would abandon East Germany in exchange for a neutral, free Germany, while LANGER did not feel that the USSR would accept such a settlement. KENNAN said that the Soviets would be willing to make such a deal in the long run. STRAYER said Bonn has gotten everything the West has to offer, and will in the future almost certainly negotiate with Russia regarding unification. LANGER stated, and KENNAN and ARMSTRONG agreed, that the US should say, as a tactical maneuver, that it would accept a neutral, unified and free Germany. Against the suggestion of KENNAN that the French have been hostile to German interests, MOSELY said that France permitted Bonn to enter NATO, took the lead in pressing for German unity at Geneva, and has been calm over the Saar situation. Regarding the succession to Adenauer, ARMSTRONG felt that von Brentano's chances improve the longer Adenauer remains on the scene, and that the Foreign Minister is the best bet for the US.

II. COMMUNIST CHINA

6. The Consultants discussed NIE 13-56, "Chinese Communist Capabilities and Courses of Action in Asia through 1960". MOSELY said that the Chinese Communists were having serious problems in their farm collectivization program, pointing out the lack of mechanization, peasant resistance, and Soviet inability to pick up the tab for the costs of collectivization. MILLIKAN felt that the estimate dealt with the agricultural problem adequately, but that the NIE would have been more useful to the policy maker if it had highlighted more the major factors to watch in the development of collectivization, and spelled out in more detail the important contingent factors for the next few years. He suggested that an NIE on the overall agricultural prospects for the Sino-Soviet Bloc might be useful. STRAYER noted that the estimate did not correlate China's foreign trade policy with Bloc political objectives in Southeast Asia,

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especially their use of agricultural surpluses. He also suggested that the Communists will be faced with a shortage of foodstuffs as a result of the increase in population and peasant resistance to collectivization, which is preventing an increase in production. KNORR said that the Chinese are much less rigid than the Russians were in their collectivization, and will learn from the disastrous results of Soviet experience. MOSELY stated, however, that the Chinese can't leave an uncollectivized sector for very long because of the effects on those peasants brought under the State system. KENNAN suggested that the Soviets had accepted a decline in production in the interests of political control, and felt that the shock of collectivization would probably be more limited in China, at least for the short run, than it had been in Russia. MILLIKAN asserted that the Red Chinese leaders had to take into account the morale of party cadres, and that they valued this more highly than the attitude of the peasants and immediate production quantities.

7. KENNAN said the estimate's analysis of the cohesive and divisive factors between the USSR and Red China was excellent, and believed the estimate was correct that the mutual interests of the two countries would be paramount over the next five years. MOSELY and MILLIKAN suggested that the Chinese may not be as aware as the USSR of the effects of aggressive words or actions against the West upon India and other neutral nations, and argued that the Soviets may have to restrain the Red Chinese. STRAYER felt that the extent of Sino-Soviet coordination in Asia during the past year had been even higher than indicated in the estimate, especially in offers of trade to the Middle and Far East. LANGER said that since the Bulganin-Khruschev visit to China, Sino-Soviet coordination has appeared to be much closer. KENNAN stated that following the absence of US influence in Japan there will be less cooperation between Russia and China. MILLIKAN suggested two sources of possible conflict: spheres of influence and division of the spoils, and disagreement over the effect of vigorous Bloc actions toward the West. STRAYER felt that the first source would not be a point of friction in the foreseeable future. LANGER believed the Korean war and negotiations demonstrated the coordination which he felt now exists between the Soviets and Chinese, although he acknowledged latent conflicts of interest. He pointed out that the Soviets were even now, however, giving aid to neutrals and developing Siberia at the expense of help for the Chinese.

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8. ARMSTRONG raised the lack of discussion in the NIE of the possible conflict over Manchuria and expressed sympathy with the suggestion that Sino-Soviet conflicts of interest in the area were involved in the Kao Kang purge. KENNAN suggested that the renunciation of all former control over Manchuria must have been a bitter pill for the Soviets to swallow, recalling that during the period he had been in Moscow there were indications of hard bargaining on both sides.

9. There was a general tendency to discount MOSELY's suggestion that the Soviet effort to quiet down India and Burma might be part of a coordinated Sino-Soviet plan in anticipation of a contemplated eruption in South Vietnam. However, KENNAN agreed that the current play for neutralist sentiment would aid them in pursuing any of a number of possible future courses of action.

10. The Consultants were in general agreement that the US is at an immense psychological disadvantage in dealing with the former colonial peoples of Asia. KENNAN felt that paragraph 108 of the estimate did not sufficiently stress the violent and irrational anti-Americanism of Asian intellectuals, a sentiment which he had been made acutely aware of at a conference in Milan last fall. "The Russians offer us fellowship; you offer us nothing to join except military pacts".

11. On the other hand, the Consultants felt that the US was too alarmist over Soviet offers of aid to the nations of the Middle East and Southeast Asia. They felt that acceptance of aid did not necessarily mean that a country would come under Bloc control. There was general agreement with KENNAN's statement that the Bloc continues to reap political advantage from aid offers, but that this is likely to diminish when the time comes for serious bargaining and for actual deliveries. STRAYER noted that Sino-Soviet ability to take surplus raw materials was an advantage to them in economic relations.

III. BURMA

12. In connection with the staff memorandum on Burma dated 3 February, LANGER argued that U Nu wasn't "born yesterday," that he simply needed technical assistance and an outlet for Burma's rice shortage, and that he was under no illusions about the Soviets. KENNAN and DUNHAM both asked what was wrong with neutralism, and suggested it was understandable in the case of Burma and other newly independent countries in Asia, and that it might not be so much to the advantage of the Bloc as we tend to think. LANGER stated that U Nu just wants to

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be left alone and develop his country. There was, however, no firm answer to COOLEY's question whether Burma would, like Finland, be able to keep her independence despite substantial economic dependence on the Bloc, or would lose it, as Afghanistan was generally felt to be doing. The Consultants agreed with the memorandum's emphasis upon the importance of the university at Rangoon and of the intellectuals in Burma.

IV. THE MIDDLE EAST

13. Following a half-hour situation report by HEWITT, the Consultants discussed several problems in connection with the staff memorandum dated 3 February on the area. LANGER and YOUNG agreed that the UK was making a mistake in the handling of its dispute with Saudi Arabia over Buraimi. They felt the UK had chosen a poor issue on which to take a tough stand. DUNHAM said, however, that the Saudi Arabians and other countries in the area would not be appeased by the UK's withdrawal from Buraimi, to which YOUNG agreed. STRAYER stated that Buraimi was not in the sphere of influence of Saudi Arabia, and also felt that concessions would not satisfy Egypt and Saudi Arabia. He suggested they will continue to play the West off against the Soviets. YOUNG said the Arab countries have little experience in dealing with the USSR, but believe they can avoid Communist influence when accepting Russian aid.

14. Concerning the Arab-Israeli situation, LANGER felt the Arabs really accept the fact of the Israeli State but are interested in face-saving after their defeat in the Palestinian War. He queried whether a boundary revision would not appease the Arabs. YOUNG stated that the West doesn't give the Arabs enough credit for their willingness to negotiate with Israel. He said the US and UK should decide on a policy, and force the Arabs and Israelis to accept it. Although the Arabs would complain bitterly if this were done, several leaders have said that they would like to have the Western Powers impose a settlement. KNORR said that Israel will not accept the boundaries agreed upon by the UN in 1947, and didn't feel the Western Powers could push the two sides into a settlement which would have any permanence. LANGER, on the other hand, felt that an enforced deal would gain time, and help the chances for a longer run accommodation.

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ARMSTRONG was dubious about what exactly the West could decide in the way of a settlement that would be at all satisfactory to the two sides. LANGER said a war between the Arabs and Israel would be ominous, and was alarmed whether it could be contained. REITZEL said he understood that the UK felt the Middle East was still an area in which the West had the option of using force, unlike most "colonial" areas. STRAYER said an Arab-Israeli war, regardless of its outcome, would hurt the prestige of the West throughout the neutral areas.

15. Turning to the question of the Baghdad Pact and Soviet entrance into the area, LANGER and ARMSTRONG argued that the Pact was virtually worthless, and had given the USSR an excuse to jump into the Middle East. MILLIKAN agreed and said the Pact was just a device to get arms and economic aid from the West in the eyes of the Arab members. YOUNG said the UK hoped by its allegiance to the Baghdad Pact to get US aid for nations in the area under her influence or control. The Consultants agreed with STRAYER's analysis that Soviet attacks on the Pact were based on three considerations: (a) the USSR was worried at the prospect of US air bases in the Pact countries, (b) a weakening of the Pact would weaken US prestige in the Middle East, (c) the process of detaching allies from the US is always good business and might in time lead to erosion of SEATO and even NATO. LINCOLN felt, however, that the Soviets viewed the Baghdad Pact as at least a psychological obstacle to local aggression in the area. MOSELY replied that the USSR believed the US would intervene without a treaty, and that the Pact simply gave the Soviets a target for propaganda and political purposes. MILLIKAN suggested the Pact should be played down as a military instrument, and that the West should deal bilaterally with the member countries to broaden political and economic relations with them. ARMSTRONG felt, and the Consultants generally agreed, that the proposals of Secretary Dulles for a Western guarantee of a revised boundary, a settlement of the refugee problem, and economic aid were along the right lines if they were implemented.

V. INDIA

16. HOOVER, who recently returned from India, opened the discussion with several observations on the Indian 5-Year Plan. He said that the differences among Indian officials regarding the emphasis to be placed on developing heavy industry and on small village programs

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had resulted in a compromise generally acceptable to both groups. He stated that Indian economists had been divided on the issue, that businessmen largely favored emphasizing heavy industry, while various groups favored concentration on developing village programs on the grounds of decentralization and an ideological belief in cooperatives. MILLIKAN noted that village development would do more than heavy industry expansion to alleviate India's unemployment problem. He asserted that the Soviet and Chinese model of socialized heavy industry was accepted as a model by Mahalanobis and those associated with him in backing emphasis on heavy industry as the key to national development. HOOVER said he detected a great deal of cynicism in India about eliminating the problem of unemployment, which it was felt was neither measurable nor too important. He said the Indians had decided on the need for a six million ton steel capacity based on Soviet experts' advice, who he said had influenced Mahalanobis heavily. MILLIKAN noted that the Indian planners were more competent than the experts of any other underdeveloped nation. He said that India's problem was less one of the availability of capital than of incentive among private groups, who are reluctant to invest on a large scale in view of the restrictions and plans for socialism of the Government. He stated that the planners are nevertheless placing their faith in a heavy investment of private capital. He further asserted that India will have a problem of inflation stemming from deficit financing.

17. Turning to the difficulties faced by Nehru over his plan for reorganizing the system of states, HOOVER said the Government viewed this program as an unwelcome necessity. It had been hoped the Commission dealing with the problem would not bring forth its recommendations for some time, but the proposals were quickly produced, and strong local pressures forced the Government's hand. The Congress Party was unable to control the local politicians in the matter. He suggested that the riots in Bombay were the result of class and racial antipathies which flared over the proposed reorganization of boundaries. MOSELY noted that the people of India who speak English and Hindi will be at an advantage in securing employment in the Government. MILLIKAN said the North-South cleavage would be a long-term problem for India. He didn't believe this would emerge as a significant conflict until after Nehru leaves the scene. STRAYER suggested that the Congress Party would not have a monopoly of power after 10 or 15 years, and noted the decline of the Socialists and the strong organization of the Communists.

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18. LANGER felt that disintegration would set in after Nehru leaves the scene. Comparing the development of India and Communist China, STRAYER said the Indians are lagging behind, although they had a stronger industrial base to begin with than did the Red Chinese. HOOVER stated that little has been accomplished regarding India's expanding population, but that the Minister of Health had recently changed his mind regarding birth control. MILLIKAN concluded the discussion by observing that economic growth is the key to Indian solidarity.

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